

for improved organisational performance: Exploring SMEs in the South-Eastern European region', *Personnel Review*.

## **Rewarding employees in turbulent economies for improved organisational performance: Exploring SMEs in the South-Eastern European region**

### **Structured Abstract**

**Purpose:** This study explores the application of total reward practices in small and medium-sized enterprises (SMEs) in the South-Eastern European (SEE) region and the reward elements positively affecting organisational performance.

**Design/Methodology/Approach:** The sample consists of 199 SMEs operating in SEE countries which are either under economic crisis or transition: Greece, Bulgaria, Romania, Albania, Kosovo and the Former Yugoslav Republic of Macedonia (FYROM).

**Findings:** SMEs in the SEE region are implementing a total rewards model which is characterised by a weaker application of individual aspects and by a stronger application of transactional, relational and communal aspects. Within the communal aspects of the model, our study found three elements of the work environment that positively affect organisational performance; work-life balance, employee involvement voice mechanisms, and organisational culture supporting personal and professional development.

**Practical implications:** Our study contributes to HR practice; we found that a better work environment is positively related to improved organisational performance in these SMEs. This means that in times of economic crisis or transition when HR budgets are limited such non-financial strategies can be a viable alternative to costly financial rewards to such organisations.

**Originality/value:** The study contributes to both theory and HR practice by shedding light on how employee rewards are affected in economies under crisis and transition, how SMEs can motivate their employees when faced with significant financial limitations, as well as explores which reward elements can lead to enhanced organisational performance in such organisations.

**Keywords:** economic crisis, transition economies, total rewards, organisational performance, SMEs, South-Eastern Europe

**Article classification:** Research paper

## **Introduction**

Reward systems play a crucial role in attracting new employees, eliciting good work performance and maintaining employee commitment and engagement (Day *et al.*, 2014; Kerrin and Oliver, 2002; Tomaževič *et al.*, 2014). 'Total reward' includes all types of financial and non-financial, direct and indirect, intrinsic and extrinsic rewards (Armstrong, 2010; Jiang, 2009) and its application contributes to employee well-being, satisfaction and productivity (Kaplan, 2007; Lyon and Ben-Ora, 2002). However, the total reward theory has been developed and mainly applied in Anglo-American contexts which have traditionally been characterized by financial stability (Brown, 2005) and in larger mainstream organisations that adopt formal HRM practices (Cassell *et al.*, 2002). Although there is a wide range of literature discussing the effects of the recent economic crisis and austerity on businesses and more specific literature exploring the impact of this crisis on people management (Marchington and Kynighou, 2012; McDonnell and Burgess, 2013; Nijssen and Paauwe, 2012; Psychogios and Wood, 2010), there is little evidence on the impact of the crisis on the application of employee rewards. Even more so, the evidence surrounding the impact of the crisis on HRM application in economies under recession or transition, such as those in the South-East European (SEE) region and specifically in small and medium-sized enterprises (SMEs), is scarce. It is, therefore, relevant and timely to explore this issue.

Our study focuses on changes in the total reward systems applied in the period 2011-2014 and enquires about projected outcomes for 2015. Three major research questions are explored: (i) What is the total reward system currently (2014) applied by SMEs across SEE countries (Greece, Romania, Bulgaria, Albania, Kosovo, and FYROM)? (ii) How has the economic instability affected the application of total reward strategies in SMEs in this region between 2011-2014 and what are the projected implications for 2015? (iii) Which aspects of the total reward systems applied positively affect organisational performance? The next two sections provide the background to our study exploring the literature surrounding the SEE context and reward strategies in SMEs.

## **The South-East European institutional setting of HRM**

There is a growing literature exploring the SEE context under the business systems (Whitley, 1999) and varieties of capitalism frameworks (Amable, 2003; Hall and Soskice, 2001), although research still remains largely fragmented in this area. For example, Lane and Myant

(2007) and Hancké *et al.* (2007) discuss the SEE context from a 'varieties of capitalism perspective'. In addition, there are also country-specific studies, such as Upchurch and Marinkovic's (2011) exploration of wild capitalism in Serbia and Wood's *et al.* (2014) research on variations in institutional regimes in the SEE region. Our aim is to add to this growing body of knowledge by exploring the application of employee rewards in SMEs operating in Europe's peripheral business systems in the SEE region. We study SMEs in a country under economic crisis (Greece) and in five post-communist countries in transition; Kosovo, Romania, Bulgaria, Albania and FYROM.

It has been argued that post-communist SEE countries have been experiencing continuous and dramatic change since 1989 in their political, social, economic, institutional and cultural systems (Sahadev and Demirbag, 2010; Upchurch and Marinkovic, 2011). The process of economic integration continues to proceed at an uneven pace and it involves deregulation, external shocks, increased capital mobility and heightened competition (Cooke *et al.*, 2011; Szamosi *et al.*, 2010). The post-communist region shares a similar economic and political history, especially after World War II. Cook's work (2010) explores how these economies operated in an autarchic environment of state control, with high levels of employment and labour force participation and low compressed wages leading to inefficient labour use and poor health and safety conditions. In addition, membership in officially sponsored unions was mandatory and independent employee bargaining was prohibited. The collapse of communism in Europe in 1989 and the attempts at reforms that followed led to a period of long-term recession with declines in GDP. These countries began to move towards democracy with the process of joining or aiming to join the EU in the mid-1990s (Albania became an official candidate for accession to the EU in June 2014; Kosovo is a potential candidate but it is still a disputed territory and partially recognised state since declaring its independence from Serbia in February 2008).

Businesses in the SEE region started developing after the end of communism mainly through the establishment of the now dominant SMEs (Dittrich *et al.*, 2008) while research suggests that pre-1989 informal economic practices have become an integral component of their economy (Brewster and Viegas-Bennett, 2010; Williams, 2010; Williams and Round, 2009; Williams *et al.*, 2013). However, the nature and application of HRM in businesses differs between countries in this region (Zupan and Kase, 2005). Literature on HRM

practices in Kosovo, Romania, Bulgaria, Albania and FYROM is limited and fragmented and specific literature on employee rewards is even more scarce.

Research by Psychogios *et al.* (forthcoming) explores how SMEs in the SEE region (Serbia, Romania, Bulgaria, FYROM) apply formal HRM practices depending on their degree of internationalisation, sector and organisational size. In a similar research on HR and working practices in Greece and Serbia, it is argued that although there are differences in the origins and development of crisis in these two countries, the crisis can be considered institutionalised in both contexts having similar impact on SMEs and the way they respond to it (Psychogios *et al.*, 2015). There is also other research exploring HRM in Serbia (Bogićević Milikić, 2009; Bogićević Milikić *et al.*, 2012; Upchurch and Marinkovic, 2011), but Kosovo has not been yet explored as a distinct business setting partly due to the unresolved political dispute. There is equally little research on HRM practices in Romania which explores the informality of HRM in Romanian businesses (Constantin *et al.*, 2006; Dalton and Druker, 2012) and the changes to the labour market caused by the Romanian economic transition. Literature on Bulgaria and FYROM is even more limited. Some research explores trade union representation in large Bulgarian corporations (Vatchkova, 2009), the informality of the industrial system in Bulgaria (Williams *et al.*, 2013), differences in HRM formality between domestic SMEs and foreign companies in FYROM (Svetlik *et al.*, 2010), and HR issues in SMEs in FYROM (Szamosi *et al.*, 2004). Albania is a particularly under-researched area with some research exploring organisational behaviour issues (e.g. Narasimha and Kenneth, 2014) but no research has yet to explore HRM issues. Overall, the literature relating to HRM in the post-communist SEE region is sparse and fragmented and, as such, must be treated with caution.

Greece, on the other hand, belongs to the 'Mediterranean' model of South European countries, characterised by limited state intervention in the regulation of working conditions, a restricted influence of organized labour on working conditions in the private sector and by low job tenure, making it unattractive for employers to invest in training (Amable, 2003). The outcome is lower employee skill levels leading to low-quality work organisation and lower wage rates (Holman, 2013). The socio-economic, political and historical context of the country is key to understanding the current state of the business environment. Greece failed to imitate the industrialization process taking place in northern Europe and North America in the twentieth century (Prouska and Kapsal, 2011). This was partly due to several consecutive

periods of warfare and political unrest which financially exhausted the country and disrupted insitutional development (Kapsali and Bulter, 2011). In addition, economic crises have also characterised Greece's history and the latest economic one is just another example of its economic turbulence (Fouskas, 2013; Paris *et al.*, 2011). As a result of this particular volatile context, Greek businesses needed to be small and agile and this is why Greece exhibits a high rate of self-employment and micro-family owned enterprises (Prouska and Kapsali, 2011). This fact inhibits the development and formality of HRM while research has noted an apparent difference in HRM sophistication between MNCs and domestic firms (Papalexandris, 1992).

### **The impact of the recession on HRM in the South-East European region**

Buturac and Teodrovic (2012) have argued that the recent recession had a negative impact on the SEE region's economic growth and that SMEs have not been able to bounce back to their pre-crisis level in terms of their Gross Value Added (GVA: depreciation, rewards to labour, capital and entrepreneurial risk) or employment (Wyman *et al.*, 2012). What is also known is that the SEE region has significantly been affected by processes of transition, globalization and liberalization over the past two decades (Cooke *et al.*, 2011; Psychogios *et al.*, 2010; Szamosi *et al.*, 2010). Overall, the recession has been blamed for increased employee anxiety and uncertainty and decreased job satisfaction, engagement and commitment (Green, 2010). Financial rewards have also been affected because of the crisis and businesses are focusing more on offering alternative rewards, such as company awards, additional leave, themed days, and personal support through mentoring and engagement (Blyth, 2008). Fajarado's research (2009) suggests that businesses responded to the crisis with freezing recruitment, downsizing business functions, redesigning benefits, reducing merit pay, reducing or eliminating cash bonuses, or forcing employees to work overtime hours without offering overtime pay (Rowley and Tashiro, 2009). Organisations have been struggling to find a balance between managing talent through rewards and managing costs (Towers, 2009). In addition, training and development budgets have also been affected by the crisis because of an attempt to control costs (Williams, 2009).

Our study focuses on the SEE region because SMEs are at the core of their economies (Dittrich *et al.*, 2008). These countries can be classified in two groups according to the

general type of economic challenges they face. The first group consists of Greece (which has a long membership in the EU), Romania and Bulgaria (which recently joined the EU). These countries face critical financial problems (Greece and Romania are under IMF 'guidance', while the economy in Bulgaria is in a critical stage as well) which challenge businesses and particularly SMEs (Arghyrou and Tsoukalas, 2010). The result is that many SMEs face liquidity problems and this directly affects the reward systems applied (Kouretas and Vlamis, 2010). The second group consists of Albania, Kosovo, and FYROM (targeted to become EU member states) which have undergone transformation processes from communist economies to transition ones. The process of transition mainly focused on abandoning centralized decision-making regarding investments and creating a liberal market environment for production and employment (Mihajlov *et al.*, 2013). This process has been extremely difficult and complex and it has affected the great majority of organisations (Stokovic and Skuflic, 2006) which needed to follow restructuring and privatization processes (Estrin, 2009). The result is that SMEs in these countries operate under constant economic instability (Cooke *et al.*, 2011; Psychogios *et al.*, 2010; Szamosi *et al.*, 2010).

Both groups of countries can be seen as examples of business environments hit by economic crises and, therefore, coercively shifting HR practices. The crises are different, but both are influenced by the recent (2008) global financial crisis. In other words, both the economic crisis in Greece, Romania and Bulgaria as well as the transition crisis in Albania, Kosovo and FYROM provide a unique opportunity to explore and analyse reward systems reformation. It is, therefore, significant to explore these HR practices within them especially when the main literature on the application of HRM in these countries has focused on large organisations (Psychogios *et al.*, 2014; Ivanova and Castellano, 2012; Mia and Suutari, 2004) while less attention has been given on SMEs in SEE (Psychogios *et al.*, 2010). The application of reward systems in SMEs operating in countries facing critical economic challenges has not been explored at all.

## **Employee rewards in SMEs**

According to Brown (2005), although reward strategies have traditionally been based on financial rewards, many businesses are now implementing a 'total rewards' approach driven by, firstly, the rapid cost increase in specific areas of benefits such as pensions, secondly, by the recognition that employees are as much motivated by non-financial factors (e.g. good

learning opportunities and autonomous work) as by financial packages, and thirdly, by an increased diversification of the workforce (i.e. individuals value particular rewards differently). The concept of 'total rewards' (e.g. Armstrong, 2010; Armstrong and Brown, 2009, 2006; Gross and Friedman, 2004; Jiang, 2009) is defined as an approach to employee rewards which incorporates financial rewards (pay and benefits), as well as other rewarding experiences, such as the type of work, work environment, management and leadership style, and opportunities for learning and development (see Figure 1). Considering the importance of attraction, retention and engagement of employees, total rewards offer a value proposition which embraces people's values regarding employment relationships. At the same time total rewards is a model that is best fit and tailored to the organisation's culture and work processes while it is aligned with other business/HR policies, practices and strategies (Brown, 2005). A successful model of total rewards is people-centred focusing on employee needs, aiming to provide a flexible mix of rewards that offer choice and using rewards to establish a distinctive employer brand while adopting a long-term incremental approach (Gross *et al.*, 2011; Gross and Friedman, 2004).

--Figure 1 about here--

SMEs adopt an informal, intuitive and ad-hoc HRM function because formalisation is costly and often requires the creation of a separate department (Cunningham and Rowley, 2007). SMEs are more likely to adopt a total rewards approach if they follow a strategy of promoting close and harmonious relationships among employees and, therefore, providing better work environments characterized by good management, informal communication, flexibility, employee involvement, commitment and trust (Wilkinson, 1999). On the contrary, small organisations not promoting employee autonomy or involvement, having poor working conditions, poor health and safety conditions, low financial rewards, low levels of job satisfaction and employee retention, and overall higher rates of absenteeism and labour turnover are more likely to adopt a few or no components of total rewards (Cunningham, 2010).

Furthermore, research has found that SMEs who are part of a franchise or a multi-site and those that are unionized adopt more sophisticated HR practices, including total rewards (Urbano and Yordanova, 2008). However, findings suggest that adoption of unionization

among SMEs is often low, especially in transitioning economies, and the adoption of HR practices, including total rewards, is often minimal or non-existent (Welte and David, 2009). In addition, a lack of employment law enforcement in transitioning economies makes SMEs more likely to engage in corruption, paying very little attention to HR/employment policies and practices, including total reward application, because HR is perceived not to play an important role to organisational performance (Tonoyan *et al.*, 2010).

In terms of how rewards are overall applied in SMEs, larger SMEs provide more rewards than smaller firms (Mayson and Barret, 2006). Basic pay is perceived to be lower in smaller firms compared to larger organisations, although such generalization cannot be conclusive since rewards may vary between different SME sectors (Harney and Dundon, 2006). In terms of financial rewards, SMEs often provide performance-related pay in addition to basic pay (Zhend *et al.*, 2007). In addition, Anderson (2003) argues that training in SMEs is informal, mostly taking place on-the-job and linked to short-term objectives while career development and succession planning are more easily applied in larger firms because of the number of hierarchies and positions available. Furthermore, performance management practices in SMEs are informal and applied on an ad-hoc basis (Wilkinson, 1999). There is evidence, however, to suggest that SMEs are now placing more emphasis on the importance of performance management and evaluation and are moving towards implementation of relevant HR practices (Zhend *et al.*, 2007). Finally, the work environment in SMEs is conceptualized as informal, where face to face open communication and interaction takes place (Prouska, 2011). Many argue that such informality could be considered as an advantage of small firms, where information and communication is shared between the owner/manager and employees, resulting in higher employee involvement in decision-making (Richbell *et al.*, 2010).

## **Methodology**

This study was based on an exploratory design because this design is a valuable means of finding out what is happening in organisations in an under-researched area lacking prior knowledge (Saunders *et al.*, 2012). Within this exploratory design we employed a quantitative research strategy because we wanted to gain an overview of the issue in question, similarly to other published exploratory quantitative studies (e.g. Campos *et al.*, 2012; Fernandes *et al.*, 2014; Kraus *et al.*, 2012). The survey was conducted between September



and December 2014 and focused on SMEs operating in the following SEE countries: Greece, Bulgaria, Romania, Albania, Kosovo and FYROM. The sample of organisations and managers was selected based on a purposive, judgmental technique of non-probability sampling (Gregoire *et al.*, 2001). The sampling criteria regarding SMEs included organisational size (number of employees), years of operation and industry (manufacturing, services and retail). Moreover, the SMEs chosen were established at least two years before the start of the global crisis (2008) since the study investigated total reward systems after the emergence of this crisis. The range of respondents was selected based on the following criteria: the position of the respondent in the company, the respondent's level of work-experience in the current position and the respondent's specific involvement with employee rewards. The choice of focusing on top-level managers (CEOs, CFOs, General Directors and Heads of Departments) was associated with their key decision-making position in relation to the distribution of rewards and the application of HR practices within their organisations (Zhend *et al.*, 2007). This ensured that the information collected referred to the overall organisation and not to specific cases which could be an issue if other employee levels were selected. Finally, the high participation of top-level managers is one of the strengths of this study, since such a sample of top management responses is hard to obtain in business research (Baruch and Holtom, 2008).

A total of 600 companies were initially identified and specific managers within them were contacted by e-mail in order to present the purpose and rationale of the research and to ask for their participation. From the 600 managers contacted, 199 responded, providing a response rate of 33.2%. The respondents' demographic profile is summarized in Table 1. Table 2 provides a description of the SMEs in our sample.

--Table 1 about here--

--Table 2 about here--

The data was collected through an on-line questionnaire which was designed for the purposes of this research. The participants were provided with a cover letter explaining the purpose of the study and a consent form informing them of their right to anonymity,

confidentiality and right to withdraw from the research. The questionnaire consisted of six sections:

Section 1 included demographic questions (respondent's position, age, gender and size of employer). Section 2 included questions on pay and other financial rewards, particularly on the current (2014) monthly pay and different financial rewards provided (overtime pay, performance related pay/bonus, commission, company shares and pension benefits) in comparison to 2011. Participants were also asked to make an estimate as to how pay and financial rewards may change in 2015 (categorical scales: lower/the same/higher/not sure and decrease/no change/increase/not applicable). The reliability estimates show that scales for pay ( $\alpha=.756$ ) and for financial benefits ( $\alpha=.653$ ) are reliable. The decision to focus on a comparison between 2011-2014 was based on two reasons: firstly, we considered 2012 as a year in which the economic crisis worsened and, therefore, wanted to compare employee rewards before and after that point in time; secondly, we wanted to ensure that respondents would have the necessary tenure within the same organisation to enable them to respond to the survey, therefore, we did not ask for a comparison with other earlier points of time in the recession.

Section 3 was asking participants to indicate which types of benefits formed part of their company's current (2014) reward package. The types of benefits were organised in five categories: personal security (health care, insurance cover, sick-pay, redundancy pay, career counselling), financial assistance (company loans, season ticket loans, mortgage assistance, relocation packages, fees to professional bodies), personal needs (maternity/paternity leave and pay, leave for personal reasons, childcare through workplace nurseries and vouchers, pre-retirement counselling, personal counselling through employee assistance programme, sports and social facilities, company discounts), employers' voluntary benefits (private health insurance, additional protection/insurance, additional holidays/days out, computer leasing, gym membership, staff discounts), and other benefits (annual leave, company car, free car parking, free company social events, concierge services). It also asked participants to compare how benefits received by employees had changed in comparison to 2011 and to make an estimate as to how they may change in 2015 (categorical scales: lower/the same/higher/not sure and decrease/no change/increase/not applicable). The reliability estimates show that scales for the benefits sections are reliable ( $\alpha=.788$ ).

Section 4 asked participants to identify the types of learning and development opportunities currently (2014) offered in their organisation, such as on-the-job training, off-the-job training, performance management practices (e.g. performance appraisal), career development opportunities (e.g. promotions). It further asked participants to indicate how these opportunities have changed since 2011 (categorical scale: fewer/no change/more/not applicable) and to estimate how they may change in 2015 (categorical scale: fewer/no change/more/not applicable). The reliability estimates show that the scales for the learning and development section are reliable. ( $\alpha=.824$ ).

Section 5 focused on the work environment and asked participants to indicate their level of agreement with a range of statements describing the work environment (e.g. organisational culture that supports personal and professional development, open management and leadership style, open communication systems, employee involvement voice mechanisms and work-life balance practices (5-point Likert scale: strongly agree, agree, neutral, disagree, strongly disagree). It also asked whether the overall work environment improved, deteriorated or not changed since 2011 and what the expectations for 2015 were (categorical scale: improve, deteriorate, no change). An open ended statement was included asking to explain the answers. The reliability estimates show that the scales used for the work environment are statistically reliable ( $\alpha=.831$ ).

Finally, section 6 investigated different organisational performance elements, such as shareholder returns, return on assets, return on capital employed, growth on sales, growth in revenues, growth in market value, productivity and efficiency. This section asked questions for the purpose of assessing and comparing organisational performance between 2011 and 2014. The elements were grouped together for each of the years, and respondents were asked to rate organisational performance on a 7-point Likert scale. The reliability estimates show that scales used for organisational performance are statistically reliable ( $\alpha=.995$ ).

In order to avoid bias, the questionnaire was initially translated by two professional translators. After all valid questionnaires were collected the data were coded and entered in SPSS. Descriptive analyses were used for demographic and factual statistics, reliability of the scales, means and standard deviations. Correlation analysis was conducted to assess relationships between variables. One-way ANOVA and paired sample T-tests were used to test for differences. Linear multiple step wise regression and hierarchical regression was used for predictions amongst variances.

## Findings

### *Current application of total rewards in SEE SMEs*

Our first research question was looking into exploring the elements of the reward system currently (2014) applied by SMEs across SEE countries. Out of 199 responses, 52.5% claimed that the current basic pay for line employees (fixed monthly salary or wage before tax is deducted) per month is less than €500/month. The mean score for basic pay for line employees was 3.8150 indicating that, on average, line employees receive between €700-799/month in SMEs across SEE countries. Performance-related pay/bonus is most frequently provided 68% (n=136) by SMEs. Furthermore, 25.5% (n=51) provided overtime pay, 12.5% (n=25) stated that employees receive pension benefits, 11.5% (n=23) claimed that employees receive commission, 5.5% (n=11) provided company shares, and 18% (n=36) stated that employees do not receive any additional financial rewards.

Furthermore, an analysis of multiple selection set frequencies was conducted to identify which benefits (personal security, financial assistance, personal needs, employer's voluntary benefits and other benefits) are provided to employees in SMEs. Key benefits provided were annual leave (93.5%), maternity/paternity leave (72%), leave for personal reasons (65%), sick pay (62%), company car (50%), health care (36%), free company and social events (34.5%), free car parking (22%). All other benefits (insurance cover, additional holidays, redundancy pay, staff discounts, career counselling, retail vouchers, company discount, private health insurance, additional protection insurance, fees to professional bodies, relocation packages, company loans, sport and social facilities, gym membership, season ticket loans, extra maternity/paternity pay, mortgage assistance and computer leasing) were provided in less than 20% of SMEs in our study. Furthermore, childcare through workplace nurseries or vouchers, pre-retirement counselling, personal counselling through employee assistance programmes and concierge services were not used by any of the SMEs in our study. In terms of learning and development opportunities provided, results indicated that 94% of respondents currently provide on-the-job training, 35.2% provide off-the-job training, 33.7% apply performance management practices and 38.2% provide career development opportunities. In addition, most respondents (45.5%) agreed/strongly agreed that the organisational culture supports personal and professional development. An important 46.5% agreed/strongly agreed that there is an open management and leadership style in the organisation and 41% agreed/strongly agreed that there are open communications in place.

An important 58.5% disagreed/strongly disagreed with the statement that there are employee involvement voice mechanisms in place and 76.5% disagreed/strongly disagreed to the statement that there are work-life balance practices in place.

*The impact of the crisis on total rewards in SEE SMEs: 2011-2014 and estimates for 2015*

Our second research question was focused on exploring how the economic instability has affected the application of reward strategies in SMEs in this region since 2011 and on exploring estimated implications for 2015. Respondents were asked if their organisation was withholding payments or making payments irregularly. The majority of respondents (96.5%) answered negatively. Respondents were also asked to rate whether the basic monthly pay for line employees was lower, the same, or higher since 2011 and to give their estimates for 2015. The mean average (1.9538) shows that, on average, basic monthly pay has remained the same since 2011. This means that monthly pay has not increasing each year in order to catch up with inflation. In terms of the expectations for 2015, the mean score of 1.8499 indicates that monthly pay will remain the same in 2015, although 29% predicted that pay will be lower (estimated 5%-8% pay cut) in comparison to 15% that expected it to be higher.

Further analysis was conducted to identify the changes to the financial benefits in SMEs that applied overtime pay, performance related pay/bonus, commission, company shares and pension benefits since 2011 and the expected changes in 2015. In terms of overtime pay, the mean average of 1.5977 indicates that, on average, overtime pay has remained the same, although a higher percentage of SMEs have applied a decrease of overtime pay in comparison to SMEs that have applied an increase or have not changed overtime pay since 2011. As far as the projection for 2015 is concerned, the mean average of 1.7079 shows that overtime pay is expected to remain the same in 2015. In terms of performance-related pay, the mean score of 1.4194 indicates that, on average, performance-related pay has faced a decrease since 2011. Furthermore, 38% estimated a decrease in performance-related pay for 2015 and 34% (mean average of 1.5621) estimated that it would remain the same. Furthermore, 9.5% of SMEs reported a decrease in commission. The mean average of 1.4687 does indicate that, on average, commission has faced a decrease since 2011. Moreover, 7.5% (average mean of 1.4815) expect that commission pay in 2015 will decrease. In terms of company shares, 4% of SMEs claimed a decrease since 2011 and

4.5% no change. The mean average of 1.5294 indicates that, on average, company shares provided have not changed since 2011. Moreover, 8% of SMEs do not expect any changes to the use of company shares in 2015, although the mean average of 1.8571 indicates that, overall, a decrease is expected in company shares. In relation to pension benefits, 40% of SMEs reported no changes since 2011. The mean score of 1.9111 does imply that, overall, pension benefits have not changed since 2011. As for the expectations for 2015, 22% of SMEs claimed no changes expected. The mean score of 1.9796 indicates that, overall, there is no change expected to pension benefits in SMEs.

Descriptive analysis was also conducted to identify the changes that have occurred to fringe benefits (personal security, financial assistance, personal needs, employers' voluntary benefits and other benefits) since 2011. The respondents were asked if their organisation provided fewer, more, or the same benefits since 2011 and what the expectations were for 2015. The results show that in 2011, 60.5% of SMEs were providing more benefits to their employees compared to 2014, 56% of SMEs were providing more benefits in 2012 compared to 2014, and 26.5% of SMEs were providing more benefits in 2013 compared to 2014. The mean score of 2.5500 indicates that, on average, employees were receiving fewer benefits in 2014 compared to 2011. In addition, the mean score of 2.5101 indicates that, on average, more benefits were provided in 2011 compared to 2014. Thirty-six percent of respondents that claimed employees received fewer benefits in 2014 than in previous years specified which benefits were cut from their reward package. The most important findings include: phone cards (7%), performance-related pay (6%), health care (5.5%) and 13<sup>th</sup> pay<sup>1</sup> (3.5%). Furthermore, 28.5% of respondents that predicted fewer benefits in 2015 specified which benefits they estimated will be cut from their reward package. The most important findings include: performance bonuses (16%) and additional protection insurance (4%).

When looking at the effect of the economic instability on learning and development opportunities (on-the-job training, off-the-job training, performance management practices, and career development opportunities), the mean scores indicate no change since 2011 and no expected changes in 2015. However, a closer observation at the percentage responses reveals that an increasing number of SMEs provide fewer learning and development opportunities in 2014 compared to 2011: 25% of SMEs provided fewer on-the-job training opportunities,

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<sup>1</sup>The 13<sup>th</sup> pay refers to a month's pay paid in addition to the twelve months of pay, usually as a Christmas or Easter bonus.

20.5% fewer off-the-job training opportunities, 17% fewer performance management practices, and 12% fewer career development opportunities in comparison to 2011.

Analysis was conducted to identify the changes that have occurred to the overall work environment since 2014, compared to 2011, and the expected changes in 2015. The results of the frequency analysis show that 47.5% of the respondents stated that the overall work environment had deteriorated since 2011, while 28.8% claimed that it had not changed. The remaining 23% claimed that it had improved. Although the mean score indicates that the work environment, on average, has not changed, almost half (47.5%) of respondents noted a deterioration since 2011. Furthermore, 46.5% claimed that the work environment is expected to deteriorate in 2015, although the mean score of 1.7614 indicated that, on average, the overall work environment is expected to remain the same. Respondents were asked to explain why the overall work environment had deteriorated since 2011 and why it is expected to further deteriorate in 2015. Using a keyword selection method the answers were grouped together. Common answers included the impact of economic instability and increased competition on market share which resulted in pressure for resources (financial and people). Layoffs and pressures for cost reductions resulted in more workload and stress. In addition, a weak leadership style and resistance to change were also mentioned as key factors which have led to poor strategic decision-making and in a loss of market share.

#### *Total rewards for improved organisational performance in SEE SMEs*

Our third research question aimed at exploring the aspects of the applied total rewards system positively affecting organisational performance. Respondents were asked to rate different components relating to organisational performance for 2011-2014. Components included shareholder returns, returns on assets, return on capital employed, growth on sales, growth on revenues, growth on market value, productivity and efficiency. Ratings were recorded on a 7-Likert scale. Using compute variable, all organisational performance elements were transformed into one mean for each year. The results indicated that organisational performance in 2011 had a mean of 4.3434, for 2012 the mean was 4.2193, for 2013 the mean was 4.0096 and for 2014 it was 3.5509. Therefore, the perception on organisational satisfaction is balanced (neutral) for all years, although there is a gradual yearly decrease since 2011 on organisational performance with satisfaction means orienting towards a lower satisfaction. Moreover, a paired sample t-test showed that organisational performance in 2014

has a significant lower mean compared with organisational performance means in 2011, 2012 and 2013.

Furthermore, using the compute variable and sum approach, all rewards applied were added. Correlation analysis was conducted to identify whether organisational performance in 2014 positively correlated with a higher number of financial benefits, fringe benefits and non-financial rewards, such as learning and development opportunities and work environment (organisational culture that supports personal and professional development, open management and leadership styles, open communication systems in place, employee involvement voice mechanisms and work-life balance). The results showed that organisational performance did not significantly correlate ( $p > 0.5$ ) with the provision of higher number of financial rewards ( $r = .096$ ,  $\text{Sig.} = .179$ ), fringe benefits ( $r = .081$ ,  $\text{Sig.} = .260$ ), and learning and development opportunities ( $r = .67$ ,  $\text{Sig.} = .349$ ). However, there was a significant positive correlation between work environment and organisational performance ( $r = .444^{**}$ ,  $\text{Sig.} = .000$ ) indicating that those who rated towards strongly agree for better work environment also rated higher satisfaction on organisational performance, and those who rated towards strongly disagree rated towards lower satisfaction for organisational performance in 2014. Although the correlation is significant, it is a relatively moderate correlation (see Table 3).

--Table 3 about here--

Hierarchical multiple regressions were also conducted to identify whether a higher number of rewards (financial rewards, benefits, learning and development opportunities) can predict any of the variances in organisational performance satisfaction for 2014 and whether this prediction is strengthened when work environment is added as a moderator. The results indicate that the number of rewards provided only acts as a predictor in 1.1% of the variances for better organisational performance satisfaction ( $R^2 = .011$ ,  $R^2 \text{ Changed} = .011$ ,  $\text{SigFchange} = .554$ ). However, this prediction is very low and thus is statistically insignificant ( $p = .554 > .05$ ). When work environment is added as a moderating predictor, results show that the predicting power changes by 21.1% increasing the predictive power to 22.2% ( $R^2 = .222$ ,  $R^2 \text{ Changed} = .211$ ), a change which is statistically significant ( $p = .000 < .05$ ). These results



show that positive work environment predicts higher satisfaction of organisational performance as opposed to other types of rewards (financial benefits, fringe benefits, and learning and development opportunities) or variables entered that were in fact insignificant predictors (see Table 4).

--Table 4 about here--

In addition, stepwise multiple regression analysis was conducted to identify which aspects of work environment could predict the variability in organisational performance. The step wise method in regression identifies the strongest statistically significant predictors of the dependent variance by initially extracting the strongest Pearson correlation and then it goes back to the next strongest predictor until it extracts all significant predictors (Field, 2009). Stepwise multiple regression analysis included three variables in the model and identified that work-life balance practices followed by employee involvement voice mechanism, followed by organisational culture that supports personal and professional development had predictive power over the variance in organisational performance. Furthermore, all three elements of 'better work environment' are positive predictors for higher organisational performance satisfaction. 'Open management and leadership style' and 'open communication systems in place' were extracted out of the model as they did not hold any significant predictability power over organisational performance satisfaction.

The strongest statistically significant ( $p < .05$ ) predictor in the stepwise model was work-life balance practices by predicting 13% of the variances in organisational performance ( $R^2 = .130$ ,  $R^2$  Changed=.130,  $F$  Change=.000). The second strongest significant (Sig.  $F$  change=.000  $< .05$ ) predictor for the variance in organisational performance was employee involvement voice mechanism practices. When this variable was added, the predictability power increased by 5.6% ( $R^2$  Changed=.056) further strengthening the predictive power to 18.6% ( $R^2 = .186$ ). The third strongest significant predictor (Sig.  $F$  change=.020) was organisational culture that supported personal and professional development that increase the predictability power by 2.5% ( $R^2$  Changed=.025) further strengthening the model's predictive power to 20.9% ( $R^2 = .209$ ). In the third model where all three predictors are included, the Beta weights (work-life balance practices:  $\beta = .294$ , Sig.=.001; employee involvement voice

mechanisms:  $\beta=230$ , Sig.=.005; organisational culture supporting personal/professional development:  $\beta=235$ , Sig.=.020) indicate that all these elements of the work environment positively predict higher organisational performance (see Table 5).

--Table 5 about here--

## Discussion

Literature argues that financial rewards offered by organisations, such as salary increases, cash bonuses and performance-related pay or merit pay have been reduced during the recent global recession (Fajarado, 2009; Rowley and Tashiro, 2009). Our findings showed that basic monthly pay was low and that pay has not been adjusted to reflect yearly inflation rates, thus, in essence, employees have received a pay cut in real terms. Furthermore, Zhen *et al.* (2007) discuss how SMEs recognize the importance of performance-related pay for boosting productivity and how they adopt this financial motivation more than other forms of financial incentives. Our study also found that performance-related pay was the main financial reward in our SME sample and more frequently used than other financial benefits. A moderately low percentage applied overtime pay, pension benefits, commission and company shares, while some SMEs did not provide any additional financial rewards other than basic monthly pay.

SMEs in our sample offered benefits mainly relating to personal needs and personal security. A high percentage offered annual leave, maternity/paternity leave, leave for personal reasons and sick pay. A moderate percentage offered a company car, health care and free company social events, while a very low percentage offered other types of fringe benefits (such as personal security, financial assistance, personal needs, employers' voluntary benefits and other benefits), but found that some of these benefits were completely cut from the total reward package since 2011 and further cuts on certain benefits were expected to take place in 2015.

Wilkinson (1999) found that SMEs offer on-the-job training as opposed to other formal methods of training. In addition, Williams (2009) discusses how the financial crisis has had a negative impact on learning and development opportunities particularly on programmes aiming to improve leadership, management and technical skills. Our study also found a high percentage of SMEs offering on-the-job training and a moderate percentage

offering off-the-job training. Moreover, Mayson and Barret (2006) and Szamosi *et al.* (2010) suggested that SMEs offer fewer career development opportunities in comparison to larger organisations and that these opportunities have declined within the SEE region since the recession. Our findings showed that a moderate percentage of SMEs did provide career development opportunities. Furthermore, Ignjatovic and Syetlik (2003) found that performance management practices and performance appraisals received little attention across organisations in some of the SEE countries prior to the recession. The findings in this study also showed that only a moderate percentage of SMEs implemented performance management practices.

Cegarra-Leiva *et al.* (2012) and Grawitch and Gottschalk (2006) have argued that a supportive organisational culture, open management and leadership style, open communication system, employee involvement voice mechanisms and work-life balance practices are directly linked with higher employee motivation levels. Ignjatovic and Syetlik (2003) also found that organisations in some SEE countries adopt fewer employee involvement voice mechanisms and flexibility practices. Our study also supports this; the majority of SMEs adopted supportive organisational cultures with open management and leadership styles and with open communication systems in place. On average, the majority of SMEs did not implement employee involvement voice mechanisms or work-life balance practices. However the ones that did use these practices or had a supportive organisational culture for personal and professional development demonstrated improved organisational performance.

Our findings indicate that there is a balanced/neutral satisfaction with organisational performance in 2011-2014, although there is a gradual decrease on the ratings since 2011. Literature on total rewards suggests that a higher number of tangible/intangible and financial/non-financial rewards increase individual and organisational performance (Brown, 2005). Our study found no significant correlation between organisational performance and a higher number of financial rewards, fringe benefits, and learning/development opportunities. However, there was a moderate positive correlation between organisational performance and better work environment. Further hierarchical regression showed that only in 1.1% of the variances, higher number of financial benefits, fringe benefits, and learning/development opportunities could predict organisational performance and this was found to be an insignificant prediction. However, when work environment was added as a moderator the prediction power increased to 22.2% and positively predicted higher organisational

performance. These findings correspond with Brown's (2005) findings that non-financial rewards, such as better work environment (organisational culture that supports personal and professional development, open management and leadership styles, open communication systems, employee involvement voice mechanisms and work-life balance practices), predict higher organisational performance. We also found that the strongest positive predictors of organisational performance were work-life balance practices, employee involvement voice mechanisms, and an organisational culture that supports personal and professional development. Open management and leadership styles and open communication systems were found to be insignificant predictors of organisational performance. Figure 2 presents the elements of the total reward model applied in the SEE context.

--Figure 2 about here--

## **Conclusion**

Our study contributes to HR theory and practice by exploring the application of the total reward model in SMEs in the SEE region, especially focusing on how the economic crisis and transition in the region has affected employee rewards in SMEs. We offer insights in an under-researched area including five post-communist countries under transition (Kosovo, Romania, Bulgaria, Albania and FYROM) and one country under economic crisis (Greece). We found that a better work environment is positively related to increased organisational performance. In turbulent economic environments with limited HR budgets such non-financial strategies can be a viable alternative to costly financial rewards. We found a positive correlation between organisational performance and work-life balance practices, employee involvement voice mechanisms and an organisational culture supporting personal and professional development. This means that these practices may be a viable solution for organisations operating in poor or declining economic conditions. Our findings may help organisations cope with the financial pressures of the economic crisis, however, there are wider implications of this that we must consider. The weak and dysfunctional labour market institutions in the SEE context (Hancké *et al.*, 2007; Kornelakis and Voskeritsan, 2014; Myant, 2007; Upchurch and Marinkovic, 2011; Wood *et al.*, 2014) are unable to protect workers from employers who may potentially use the austerity climate to financially exploit

them. In addition, questions are raised over how such turbulent times affect employee voice and bargaining power especially in SEE countries where informal employment relations more frequently occur (Williams *et al.*, 2013). Given that we found performance-related pay as a main financial benefit frequently used by organisations, this may indicate a particular weakening of collective voice and bargaining and a strengthening of the individualisation of the employment relationship.

The small sample of our study does not allow for comparative analysis, but the findings can be considered indicative of employee reward practices in SMEs in this region. Although our sample of top-level managers is one of the strengths of our study (Baruch and Holtom, 2008), we acknowledge that a wider sample including more managerial levels and first line employees could provide with a balanced view of the issue. We recommend that future studies explore both employee and managerial perceptions in order to provide a more balanced view of how rewards are used in organisations. In addition, differences in the countries may have consequences for the ways in which the reward categories used in the survey were interpreted by respondents. Future research can address this by exploring employee rewards in the SEE context through a business system (Whitley, 1999) or varieties of capitalism approach (Amable, 2003; Hall and Soskice, 2001) in order to better understand how institutional factors affect such HRM practices and to be able to interpret findings accordingly. Research can also focus on studying employee reward practices before the 2008/09 period of the financial crisis so as to potentially reveal other issues affecting rewards in SMEs in these countries. Finally, a mixed methodological approach may offer in-depth insights on the impact of the crisis on HRM.

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**Figure 1: Total reward model**

<p><b><i>Individual</i></b></p> <p>Base pay</p> <p>Contingent pay</p> <p>Bonuses</p> <p>Incentives</p> <p>Shares</p> <p>Profit sharing</p>	<p><b><i>Transactional</i></b></p> <p>Pensions</p> <p>Holidays</p> <p>Healthcare</p> <p>Other perks</p> <p>Flexibility</p>
<p><b><i>Relational</i></b></p> <p>Learning and development</p> <p>Training</p> <p>Career development</p>	<p><b><i>Communal</i></b></p> <p>Leadership</p> <p>Organisational values</p> <p>Voice</p> <p>Recognition</p> <p>Achievement</p> <p>Job design</p> <p>Work-life balance</p>

Source: Armstrong and Brown (2006)

**Figure 2: Total reward model application in SEE SMEs**

<p><b><i>Individual</i></b></p> <p>Base pay</p> <p>Performance-related pay</p>	<p><b><i>Transactional</i></b></p> <p>Annual leave</p> <p>Maternity/paternity leave</p> <p>Leave for personal reasons</p> <p>Sick pay</p> <p>Company car &amp; free car parking</p> <p>Healthcare</p> <p>Free company &amp; social events</p> <p>Other benefits</p>
<p><b><i>Relational</i></b></p> <p>On-the-job training</p> <p>Off-the-job training</p> <p>Career development</p>	<p><b><i>Communal</i></b></p> <p>Open management style</p> <p>Open leadership style</p> <p>Open communication</p> <p><i>Work environment*</i></p> <p>Work-life balance</p> <p>Employee involvement voice mechanisms</p> <p>Organisational culture supporting personal and professional development</p>

\*Work environment elements positively affecting organisational performance

**Table 1 Respondents' Demographics**

<b>Demographics</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>	Male	145	72.9%
	Female	54	27.1%
<b>Age</b>	20-29	48	24.1%
	30-39	112	56.3%
	40-49	27	13.6%
	50-59	10	5.0%
	60+	2	1.0%
<b>Position</b>	CEOs & CFOs	25	12.6%
	General Directors	77	38.7%
	Heads of Departments	97	48.7%



**Table 2 SME description (country and size)**

Information	Category	Frequency	Percentage
<b>Country of origin</b>	Kosovo	34	17.1%
	Bulgaria	37	18.6%
	Albania	28	14.1%
	Greece	38	19.1%
	Romania	33	16.6%
	FYROM	29	14.6%
	Total	199	
<b>Size of SMEs (number of employees)</b>	30 -50	30	15.1%
	51-100	64	32.2%
	101-150	66	33.2%
	151-200	20	10.0%
	201-250	19	9.5%
	Total	199	

**Table 3 Organisational performance and work environment correlation**

<b>1. Organisational performance 2014</b>	1				
<b>2. Work environment</b>	.444**				
<b>3. Financial benefits</b>	.096	.082			
<b>4. Learning and development</b>	.067	.335**	.426**		
<b>5. Fringe benefits</b>	.081	.063	.521**	.484**	1

\*\*Correlation is significant at the 0.01 level (2-tailed).

**Table 4 Hierarchical regression**

	<b>B</b>	<b>Std. Coefficient <math>\beta</math></b>	<b>Sig.</b>	<b>R<sup>2</sup></b>	<b>R<sup>2</sup> Changed</b>	<b>F Change</b>	<b>Sig. F change</b>
<b>Financial rewards</b>	.101	.070	.426				
<b>Benefits</b>	.013	.033	.720	.011	.011	.698	.554
<b>Learning and development</b>	.026	.021	.802				
<b>Financial rewards</b>	.124	.085	.273				
<b>Benefits</b>	.035	.091	.263	.222	.211	51.760	.000
<b>Learning and development</b>	-.221	-.182	.025				
<b>Work environment</b>	.791	.492	.000				

**Table 5 Multiple stepwise regression**

MODEL	Predictors of organisational performance (2012)	$\beta$	Std. Coefficient $\beta$	Sig.	R <sup>2</sup>	R <sup>2</sup> Changed	F Change	Sig. F change
1	work-life balance practices	.445	.360	.000	.130	.130	28.926	.000
2	work-life balance practices	.351	.284	.000	.186	.056	13.289	.000
	employee involvement voice mechanisms	.284	.249	.000				
3	work-life balance practices	.294	.238	.001	.209	.025	5.531	.020
	employee involvement voice mechanisms	.230	.201	.005				
	organisational culture that supports personal and professional development	.235	.169	.020				